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STATE OF MONTANA

MONTANA ARTS COUNCIL

Report on the Examination of Financial Statements
Fiscal Year Ended June 30, 1979

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STATE OF MONTANA

MONTANA ARTS COUNCIL

Report on the Examination of Financial Statements
Fiscal Year Ended June 30, 1979

79-12

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Room 135, State Capitol
Helena, Montana 59601

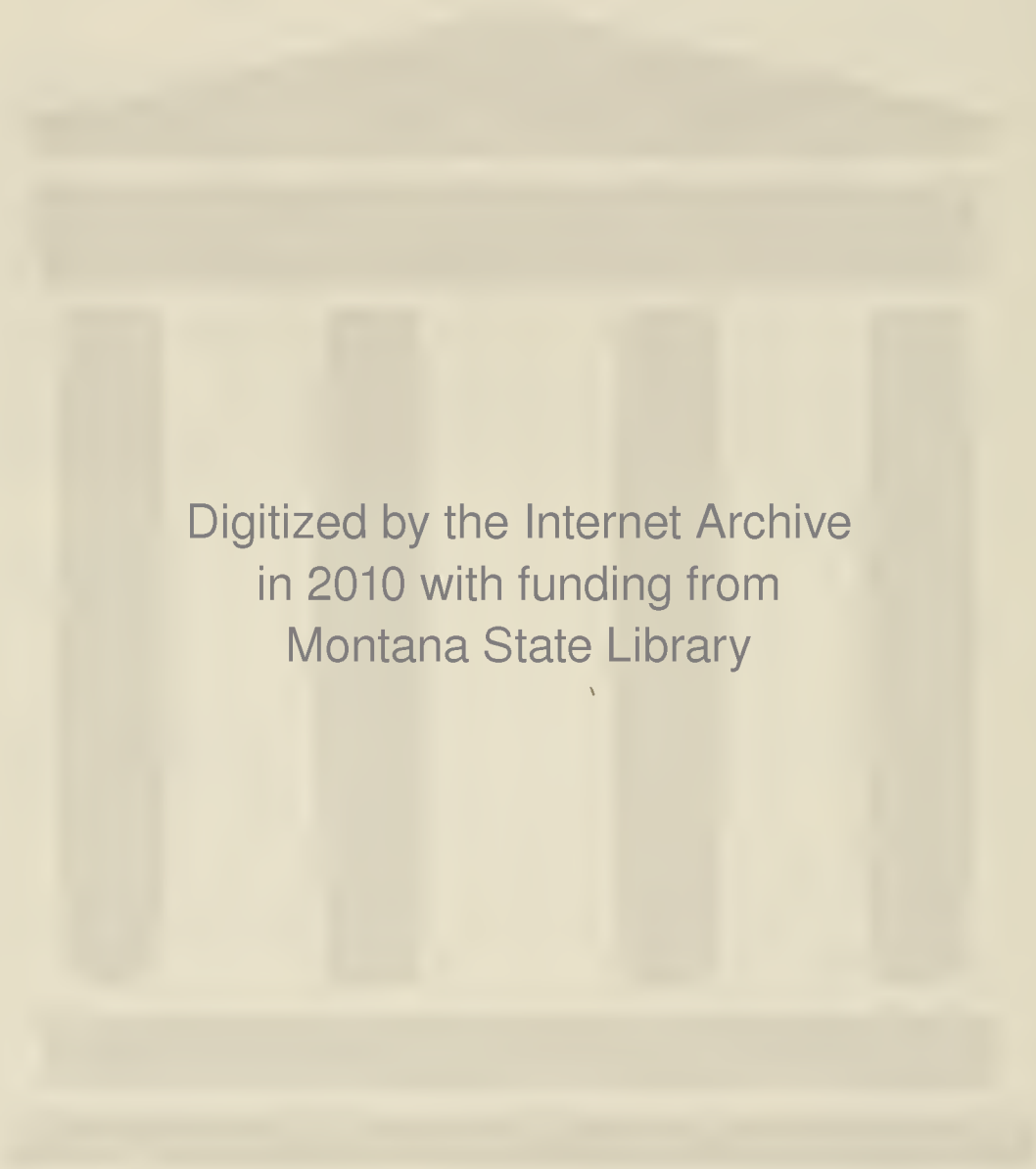

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TABLE OF CONTENTS

	Page
Appointive and Administrative Officials	iii
Summary of Recommendations	iv
Introduction	1
General	1
Prior Audit Recommendations	2
Internal Control	2
In-Kind Contributions	3
Compliance	4
Local Purchases	5
Local Banks	6
Indirect Cost Recoveries	6
Payment to Entities Within the Treasury Fund Structure	7
Deferred Revenue	8
Additions to Prcperty Records	9
Accruals	10
Scope of Examination and Opinion	12
Financial Statements	
Balance Sheets - All Funds, June 30, 1979	17
Statements of Revenue Compared with Revenue Estimates, Fiscal Year Ended June 30, 1979	18
Statements of Expenditures Compared with Appropriations, Fiscal Year Ended June 30, 1979	20
Statements of Changes in Fund Balances, Fiscal Year Ended June 30, 1979	21
Statement of General Fixed Assets, June 30, 1979	22

TABLE OF CONTENTS (Continued)

	Page
Notes to the Financial Statements	23
Schedule of Expenditures by Object, Fiscal Year Ended June 30, 1979	26
Schedule of Grant Expenditures by Object, Fiscal Year Ended June 30, 1979	27
Agency Reply	
Montana Arts Council	28

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA ARTS COUNCIL MEMBERS

		Term Expires
Maxine Blackmer Chairperson	Missoula	1983
Ceridwen Breen	Missoula	1980
Mary Cordingley	Great Falls	1980
Barbara Henderson	Butte	1980
John Johnson	Glendive	1980
Roberta Taylor	Butte	1980
Shirley Cleary	Helena	1982
Alan Goddard	Butte	1982
Robert Morrison	Billings	1982
James Pasma	Havre	1982
Jessica Stickney	Miles City	1982
Claudette Johnson	Helena	1983
Joe Munzenrider	Helena	1983
G. David Shaner	Bigfork	1983
Marian Thielman	Chester	1983

ADMINISTRATIVE OFFICIALS

David E. Nelson	Executive Director
Jo-Anne Mussulman	Grants Officer

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Montana Arts Council is included in the back of this report.

	Page
Adopt procedures to ensure subgrantees maintain records to support in-kind contributions.	4
Agency Reply: Concur. See page 29.	
Make purchases through the Department of Administration, Purchasing Division.	6
Agency Reply: Concur. See page 29.	
Deposit moneys in a local bank in accordance with Montana Operations Manual section 2-1200.	6
Agency Reply: Concur. See page 29.	
Recover the indirect costs of federal assistance programs.	7
Agency Reply: Will study. See page 29.	
Make payments to entities within the Treasury Fund Structure by no-warrant transfer.	8
Agency Reply: Concur. See page 30.	
Comply with the state's accounting policy for federal grants.	9
Agency Reply: Concur. See page 30.	
Reconcile equipment expenditures recorded on SBAS to monthly entries in the property records.	10
Agency Reply: Concur. See page 30.	

SUMMARY OF RECOMMENDATIONS (Continued)

	Page
Request a continuing appropriation when the project for which funds are appropriated spans more than one year.	11

Agency Reply: Concur. See page 30.

MONTANA ARTS COUNCIL

INTRODUCTION

We performed a financial compliance audit of the Montana Arts Council (MAC) for fiscal year 1978-79. Our audit included a review of selected MAC subgrantees for compliance with federal grant requirements.

We thank the MAC staff for their cooperation and assistance during the audit.

GENERAL

The Montana Arts Council was established as a state agency in 1967. The Executive Reorganization Act of 1971 transferred the council to the State Board of Education for purposes of planning and coordination; however, governance, management, and control of the agency vests in the members of the Montana Arts Council.

The council consists of fifteen members appointed by the governor, with consent of the senate, for a term of five years. A list of council members is presented in the front of this report. Members do not receive compensation for their services, other than reimbursement for travel expenses.

The duties of the council include (1) encouraging the study and presentation of the arts throughout the state, (2) cooperating with public and private institutions in artistic and cultural activities, (3) fostering public interest in the cultural heritage of Montana

and expanding the state's cultural resources, and (4) encouraging and assisting freedom of artistic expression.

The Montana Arts Council's primary source of revenue is federal grants from the National Endowment for the Arts. The council contracts with individuals or regrants funds to non-profit organizations in the state for completion of various art projects. The National Endowment for the Arts requires that the funds be matched by the state or subgrantee on at least a dollar-for-dollar basis.

The council's office is located in Missoula. Four full-time personnel are employed to administer the programs approved by the council.

PRIOR AUDIT RECOMMENDATIONS

The last audit of the council was performed by the Office of the Legislative Auditor for fiscal year 1975-76. That report contained 27 recommendations still applicable to the council's operations. The council concurred with all of the recommendations. They have implemented 25 of the recommendations.

INTERNAL CONTROL

As part of our examination, we made a study and evaluation of the council's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion

on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our study and evaluation disclosed no condition that we believe to be a material weakness in the internal accounting controls established by the council and the council's compliance with those controls. Our study and examination would not necessarily disclose all weaknesses in the system because it was based upon selective tests of accounting records and related data.

IN-KIND CONTRIBUTIONS

The National Endowment for the Arts requires that grant funds be matched by state or local cash and in-kind contributions on a dollar-for-dollar basis. The Federal Office of Management and Budget (OMB) Circular A-102, Uniform Administrative Requirements for

Grants-in-Aid to State and Local Governments, states, "All contributions, both cash and in-kind, shall be . . . verifiable from the grantee's records."

Two of the seven MAC subgrantees we visited did not have records to support the type and value of all in-kind contributions reported as match. In-kind contributions are defined as noncash contributions provided by (1) the grantee, (2) other public agencies and institutions, and (3) private organizations and individuals. In-kind contributions may consist of charges for real property and equipment, and value of goods and services directly benefiting and specifically identifiable to the grant program. When authorized by Federal legislation, property purchased with Federal funds may be considered as grantee's in-kind contributions.

RECOMMENDATION 1

We recommend that the Montana Arts Council adopt procedures to ensure subgrantees maintain records to support in-kind contributions.

COMPLIANCE

The council should establish policies and procedures that comply with state law and the Montana Operations Manual relating to the matters described below.

Local Purchases

To comply with state law, the council should make purchases through the Department of Administration, Purchasing Division. Section 18-4-101, MCA, states "The department (of Administration) shall make or supervise the making of all purchases" for each state agency.

The council purchased camera equipment costing over $500 from a California supplier prior to fiscal year 1979-80. The supplier had been approved by the Purchasing Division for council purchases in previous years; therefore, no requisition was submitted to the Purchasing Division for the camera equipment. At the time of this purchase, the Purchasing Division's policy allowed the purchase of capital items at the agency level without bids if the cost was less than $50. If the item was between $50 and $150, agencies could obtain written bids and attach them to a requisition submitted to the Purchasing Division. If an item cost more than $150, normal Purchasing Division procedures were mandatory.

The National Endowment for the Arts requires the council to publish an anthology with grant funds provided for the Artists-in-the-Schools program. The fiscal year 1978-79 anthology was published by a Missoula printer for approximately $2,100 without approval by the Department of Administration, Purchasing Division.

RECOMMENDATION 2

We recommend that the Montana Arts Council make purchases through the Department of Administration, Purchasing Division.

Local Banks

The council should deposit state moneys in a Missoula bank in accordance with Montana Operations Manual section 2-1200. This policy allows agencies located outside the capitol complex to deposit moneys in local banks designated by the Treasury Division as approved depositories.

The council received checks totalling $381,708 at its office in Missoula during fiscal year 1978-79. The checks were mailed to Helena for deposit in the State Treasury. Sending the checks to Helena results in an unnecessary delay before the money is available to earn interest, and a significant loss of control over the money while it is in transit.

RECOMMENDATION 3

We recommend that the Montana Arts Council deposit moneys in a local bank in accordance with Montana Operations Manual section 2-1200.

Indirect Cost Recoveries

To comply with state law, the council should seek reimbursement for all indirect costs incurred in the

administration of federal grants. Section 17-3-111, MCA, requires grantee agencies to negotiate indirect cost rates and attempt to recover the indirect costs of federal assistance programs. Management Memo 2-79-6 provides instructions for agencies to use in collecting and depositing indirect cost reimbursements.

The council did not seek federal reimbursement for the cost of support services received from other state agencies. The Statewide Cost Allocation Plan identifies MAC indirect costs of $818 for services rendered by other state agencies. It was not feasible for us to determine the exact portion of this amount applicable to the administration of federal grants; however we believe more than half of the amount could have been collected.

RECOMMENDATION 4

We recommend that the Montana Arts Council recover the indirect costs of federal assistance programs.

Payments to Entities Within the Treasury Fund Structure

To avoid unnecessary cash withdrawals from the State Treasury, payments by MAC to other entities within the Treasury Fund Structure should be made by no-warrant-transfer. Montana Operations Manual section 2-1510 restricts the use of transfer-warrant-claims

(and therefore, the ultimate payment by warrant) to disbursements to entities outside the Treasury Fund Structure.

The council made fiscal year 1978-79 payments of at least $47,365 by transfer-warrant-claim for supplies purchased from the University of Montana and grants to state institutions, such as Eastern Montana College, Montana State University, and the University of Montana. Warrants received by these institutions are deposited in local banks and are not available to earn interest from the time they are deposited until drawdown by the State Treasury. In addition, each time a warrant is written the state incurs expenses for processing, controlling, recording, and storage of the warrant. The possibility of loss or misuse of the money is significantly increased by use of warrants.

RECOMMENDATION 5

We recommend that the Montana Arts Council make payments to entities within the Treasury Fund Structure by no-warrant-transfer.

Deferred Revenue

The state's accounting policy for recognition of revenue for federal grants where cash is received in advance of anticipated expenditures was modified May 1979. To comply with the new policy, the council

should record federal grant revenue received but not earned at fiscal year-end as deferred revenue.

Management Memo 2-79-3A defines earned revenue as "the portion of revenue received for a particular activity where the expense for the activity has been incurred . . ." At fiscal year-end 1978-79 the council had not spent, and therefore not earned, grant revenues of at least $5,155 in the Federal and Private Revenue Fund and at least $7,094 in the Federal and Private Grant Clearance Fund. The council made no adjustment to reflect these revenues as deferred at June 30, 1979. This resulted in overstating revenues and understating liabilities.

RECOMMENDATION 6

We recommend that the Montana Arts Council comply with the state's accounting policy for federal grants.

ADDITIONS TO PROPERTY RECORDS

To ensure timely and correct additions to property records, equipment expenditures recorded on the Statewide Budget and Accounting System (SBAS) should be reconciled to monthly entries in the property records.

The MAC property records we audited were misstated because of the following errors. The records at June 30, 1979 included equipment that was not council property until July 1979. The cost recorded in the

property records for at least two items was not the actual price paid. Several items appeared on the list more than once with different descriptions, misrepresenting actual items owned.

The property records were corrected for significant errors before the financial statements were prepared.

RECOMMENDATION 7

We recommend that the Montana Arts Council reconcile equipment expenditures recorded on SBAS to monthly entries in the property records.

ACCRUALS

The council was appropriated $5,000 from the state's General Fund in fiscal year 1977-78 for administration costs incurred in the production of a life-sized likeness of the late Jeannette Rankin. A contract between the council and the Montana Institute of the Arts Foundation for administration of these appropriated funds was not signed until fiscal year 1978-79. Although the funds were not obligated, the council accrued the appropriation at fiscal year-end 1977-78 to prevent it from reverting to the state's General Fund. State accounting policy requires that a valid obligation exist before expenditures are accrued. To properly account for activities that will last more than one

year, the council should request continuing appropriations.

RECOMMENDATION 8

We recommend that the Montana Arts Council request a continuing appropriation when the project for which funds are appropriated spans more than one year.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR
JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheets of the Montana Arts Council as of June 30, 1979 and the related Statements of Revenue Compared with Revenue Estimates, Expenditures Compared with Appropriations, Changes in Fund Balances and General Fixed Assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Montana Arts Council recognizes grants from the federal government using the cash basis of accounting. The State of Montana utilizes the modified accrual basis of accounting which requires that grant revenues received but not earned at year-end be deferred. The council's use of the cash basis was not in accordance with generally accepted accounting principles and resulted in an understatement of liabilities to the federal government and overstatement of revenues in the Federal and Private Grant Clearance Fund of at least

$7,094 and an understatement of liabilities to the federal government and overstatement of revenues in the Federal and Private Revenue Fund of at least $5,155.

The council recorded state operating expenses of $29,857 in the Federal and Private Grant Clearance Fund. Moneys used for the operation of state government should be transfered to the Federal and Private Revenue Fund prior to disbursement. Accordingly, expenditures are overstated $29,857 in the Federal and Private Grant Clearance Fund and understated $29,857 in the Federal and Private Revenue Fund.

In our opinion, because of the effects of the matter discussed in paragraph two, the balance sheets for the Federal and Private Revenue Fund and the Federal and Private Grant Clearance Fund do not present fairly, in conformity with generally accepted accounting principles, the financial position of such funds of the Montana Arts Council as of June 30, 1979.

In our opinion, except for the effects of the matters discussed in paragraphs two and three, the statements listed below present fairly the financial position of such funds of the Montana Arts Council as of June 30, 1979 and the results of operations and changes in its fund balances for the fiscal year then ended, in conformity with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year, except for the

change, with which we concur, in the fund used to record state operating costs as described in Note 2 to the financial statements.

Statement Name	Fund
Statements of Expenditures Compared with Appropriations	Federal and Private Revenue Fund
	Federal and Private Grant Clearance Fund
Statement of Changes in Fund Balances	Federal and Private Revenue Fund
	Federal and Private Grant Clearance Fund

In our opinion, the statements listed below present fairly the financial position of such funds of the Montana Arts Council as of June 30, 1979 and the results of operations and changes in its fund balances for the fiscal year then ended, in conformity with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year, except for the change, with which we concur, in the fund used to record state operating costs as described in Note 2 to the financial statements.

Statement Name	Fund
Balance Sheet	General Fund
Statements of Revenue Compared with Revenue Estimates	Federal and Private Revenue Fund
	Federal and Private Grant Clearance Fund
Statement of Expenditures Compared with Appropriations	General Fund
Statement of Changes in Fund Balance	General Fund
Statement of General Fixed Assets	

The accompanying Schedule of Expenditures by Object, Schedule of Grant Expenditures by Object, and the items titled "Combined Total (Memorandum Only)" on the Balance Sheets, Statements of Revenue Compared with Revenue Estimates, Statements of Expenditures Compared with Appropriations, and Statements of Changes in Fund Balances are not necessary for the fair presentation of the financial statements but are presented as supplemental information. This information has been subjected to the tests and other auditing procedures applied in our examination of the financial statements and in our opinion, except for those matters noted in

paragraphs two and three, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

January 28, 1980

MONTANA ARTS COUNCIL
BALANCE SHEETS - ALL FUNDS
JUNE 30, 1979

	General Fund	Federal and Private Revenue Fund	Federal and Private Grant Clearance Fund	Combined Total (Memorandum Only)
ASSETS				
Cash in Treasury		$15,138	$19,817	$34,955
Inter-Entity Loans Receivable			6,128	6,128
Available to Pay Accounts Payable	$3,203			3,203
Total Assets	$3,203	$15,138	$25,945	$44,286
LIABILITIES AND FUND BALANCE				
Accounts Payable	$3,203	$1,440	$2,335	$6,978
Inter-Entity Loans Payable		6,128		6,128
Receipts Collected in Advance		150		150
Fund Balance	-0-	7,420	23,610	31,030
TOTAL LIABILITIES AND FUND BALANCE	$3,203	$15,138	$25,945	$44,286

See accompanying Notes to the Financial Statements.

MONTANA ARTS COUNCIL
ALL FUNDS
STATEMENTS OF REVENUE COMPARED WITH REVENUE ESTIMATES
FISCAL YEAR ENDED JUNE 30, 1979

	Federal and Private Revenue Fund		Federal and Private Grant Clearance Fund	
	Estimated	Actual	Estimated	Actual
Community Matching Grants	$ 35,800	$ 26,175	$34,200	$ 1,500
Donations			5,000	
Comprehensive Employment Training Program	8,616	7,242		
Promotion of the Arts - Federal - State Partnership	142,136	136,457	377,214	210,334
Total	$186,552	$169,874	$416,414	$211,834

Combined Total (Memorandum Only)	
Estimated	Actual
$ 70,000	$ 27,675
5,000	
8,616	7,242
519,350	346,791
$602,966	$381,708

See accompanying Notes to the Financial Statements.

MONTANA ARTS COUNCIL
ALL FUNDS
STATEMENTS OF EXPENDITURES COMPARED WITH APPROPRIATIONS
FISCAL YEAR ENDED JUNE 30, 1979

General Fund	
Appropriations	$65,335
Amendments	-0-
Total Available	65,335
Expended	65,335
Unexpended Balance	$ -0-
Federal and Private Revenue Fund	
Appropriations	$ 22,360
Amendments (See Note 2)	163,452
Total Available	185,812
Expended	165,555
Unexpended Balance	$ 20,257
Federal and Private Grant Clearance Fund	
Appropriations	$ -0-
Amendments (See Note 2)	340,947
Total Available	340,947
Withdrawn/Expended-Current Year	245,370
Withdrawn/Expended-Prior Year	220
Unexpended Balance	$ 95,357
Combined Total (Memorandum Only)	
Appropriations	$ 87,695
Amendments (See Note 2)	504,399
Total Available	592,094
Withdrawn/Expended-Current Year	476,260
Withdrawn/Expended-Prior Year	220
Unexpended Balance	$115,614

See accompanying Notes to the Financial Statements.

MONTANA ARTS COUNCIL
ALL FUNDS
STATEMENTS OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1979

	General Fund	Federal and Private Revenue Fund	Federal and Private Grant Clearance Fund	Combined Total (Memorandum Only)
FUND BALANCE - JULY 1, 1978	$ -0-	$ 1,105	$60,684	$ 61,789
ADDITIONS				
Appropriated from the General Fund	65,335			65,335
Revenue and Income		169,874	211,834	381,708
Transfer from Federal and Private Grant Clearance Fund		2,608		2,608
Expenditures Charged to Prior Year Appropriations	48			48
Total Balance Plus Additions	65,383	173,587	272,518	511,488
DEDUCTIONS				
Expenditures and Withdrawals	65,335	165,555	245,370	476,260
Prior Year Expenditure Adjustments	48	(58)	510	500
Prior Year Withdrawals			220	220
Prior Year Revenue Adjustments		670	200	870
Transfer to Federal and Private Revenue Fund			2,608	2,608
Total Deductions	65,383	166,167	248,908	480,458
FUND BALANCE - JUNE 30, 1979	$ -0-	$ 7,420	$23,610	$ 31,030

See accompanying Notes to the Financial Statements.

MONTANA ARTS COUNCIL
STATEMENT OF GENERAL FIXED ASSETS
JUNE 30, 1979

General Fixed Assets:	
Equipment	$25,591
Investment in General Fixed Assets	$25,591

See accompanying Notes to the Financial Statements.

MONTANA ARTS COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS).

The state of Montana utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and received before the "normal" time of receipt or if received for a particular activity and the expense for the activity has not been incurred prior to fiscal year-end.

Inventories

There is no recorded asset for supplies inventory. Supplies are expensed at the time of purchase.

General Fixed Assets and Depreciation

General fixed asset purchases are recorded as expenditures in the various funds at the time of pur-

chase. Gifts are recorded in general fixed asset records at fair market value at the time received and assets purchased are recorded at cost. Depreciation is not provided on general fixed assets.

Vacation and Sick Leave

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid. Permanent employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation for 90 days into a new calendar year. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave. The liability amount associated with unused accumulated vacation and sick leave at June 30, 1979 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

2. CHANGE IN ACCOUNTING PRINCIPLE

Prior to fiscal year 1978-79 the Montana Arts Council recorded federal moneys used for the operation of state government in the Federal and Private Grant Clearance Fund. During fiscal year 1978-79 the council recorded these moneys in the Federal and Private Revenue Fund in accordance with generally accepted accounting principles and state law. Significant budget

amendments in the Federal and Private Revenue Fund and the Federal and Private Grant Clearance Fund were necessary to make the change. No adjustment to the fiscal year 1978-79 beginning fund balances was required to reflect the change.

3. EMPLOYEES' RETIREMENT SYSTEM

The Montana Arts Council employees are covered by the Public Employees' Retirement System, a contributory plan under which the state contributes 6.2 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages. Total pension contributions made by the council during fiscal year 1978-79 were $4,178.

The state's policy is to fund accrued pension costs. At June 30, 1978 the Public Employees' Retirement System was actuarially sound. The unfunded past service costs and the actuarially computed value of vested benefits were not readily available for members of the plan employed by the agency.

4. ASSETS HELD IN TRUST

In addition to the fixed assets shown in the financial statements, the council maintains possession of art works owned by individuals. The estimated value of these assets is $800.

MONTANA ARTS COUNCIL
ALL FUNDS
SCHEDULE OF EXPENDITURES BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1979

Personal Services	
Salaries	$ 67,154
Employee Benefits	10,122
Total Personal Services	77,276
Operating Expenses	
Contracted Services	84,663
Supplies and Materials	11,866
Communications	5,745
Travel	26,677
Rent	7,203
Repair and Maintenance	614
Other Expenses	277
Total Operating Expenses	137,045
Equipment	
Office	1,111
Total Equipment	1,111
Grants	
From State Sources	5,000
From Federal Sources	255,828
Total Grants	260,828
Total Expenditures	$476,260

See accompanying Notes to the Financial Statements.

MONTANA ARTS COUNCIL
SCHEDULE OF GRANT EXPENDITURES BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1979

Object of Expenditure	Amount
TOURING -- Grants are made to arts organizations, institutions, and community organizations to support the importation of creative and/or performing artists, touring groups, and exhibitions.	$ 59,816
GENERAL SUPPORT -- Grants are made to permanent arts organizations and institutions as support for total programming.	49,125
SPECIAL PROJECTS -- Grants are awarded to arts organizations to assist students of the arts in pursuit of arts training and experiences beyond normal, academic pursuits; to organizations sponsoring individuals for travel and per diem; and for rental, transportation, and purchase costs of equipment essential to a program or project.	42,543
SMALL GROUPS -- The Montana Arts Council received $33,650 in additional grant funds during fiscal year 1978-79 only. These funds were awarded to small groups/organizations of high quality in the state of Montana which had not received direct funding from the National Endowment for the Arts in past years.	32,295
TECHNICAL ASSISTANCE -- Grants are awarded to arts organizations, institutions, and community committees in support of administrative, consultant, and technical assistance projects not otherwise listed within the other major categories.	22,225
OTHER -- Charges were made to grant expenditures for projects such as the Rankin statute, Literature Public Services, MAC research, and the 1977-78 Artists-in-the-Schools program. At least $29,857 of these charges were council operating expenses rather than grants. (See page 13.)	54,824
Total Grant Expenditures	$260,828

AGENCY REPLY

MONTANA ARTS COUNCIL
~~235 East Pine~~ 1280 South Third St. West
Missoula, MT 59801
406/543-8286

RECEIVED
APR 0 9 1980
MONTANA LEGISLATIVE AUDITOR

April 7, 1980

Morris L. Brusett
Legislative Auditor
State Capitol
Helena, MT 59601

Dear Morris:

This letter is in response to your request for our written reply to the audit report of the Montana Arts Council by the office of the legislative auditor.

Our responses to the eight recommendations are attached on a separate sheet to facilitate printing of them.

Both copies of the narrative and financial statement segments of the final report are enclosed as requested.

Sincerely,

Jo-Anne Mussulman
Acting Director
MONTANA ARTS COUNCIL

jm/s

Enclosures

MONTANA ARTS COUNCIL RESPONSE

RECOMMENDATION 1

We recommend that the Montana Arts Council adopt procedures to ensure subgrantees maintain records to support in-kind contributions.

WE CONCUR. The Council will take the necessary steps to establish policies and procedures that comply with federal law to ensure subgrantees maintain records to support in-kind contributions.

RECOMMENDATION 2

We recommend that the Montana Arts Council make purchases through the Department of Administration, Purchasing Division.

WE CONCUR. With regard to the publication of the anthology of student writing from the Poets & Writers-in-the-Schools program, a letter has been sent to the Purchasing Division, Department of Administration, requesting official approval for continuing to have the anthology printed in the local community for make-up and editing ease. Otherwise, concurrence is noted.

RECOMMENDATION 3

We recommend that the Montana Arts Council deposit monies in a local bank in accordance with Montana Operations Manual, Section 2-1200.

WE CONCUR. Steps are being taken immediately to concur with this recommendation.

RECOMMENDATION 4

We recommend that the Montana Arts Council recover the indirect costs of federal assistance programs.

COMMENTS: At the present time, one-half of all administrative costs are paid out of federal grant monies. In addition, administrative costs allocable to grant programs are so allocated. The costs referenced in the Statewide Cost Allocation Plan would reduce the funds available for regranting since the Endowment would not increase federal dollars to the council. The indirect cost proposal, which would distribute the administrative or joint costs of the agency, would limit the amount available to pay administrative costs to something less than the 50% currently being used. We will work with the Office of Budget and Program Planning on an indirect cost proposal and do whatever accrues the greatest benefit to the State of Montana in compliance with Endowment requirements.

RECOMMENDATION 5

We recommend that the Montana Arts Council make payments to entities within the Treasury Fund Structure by no-warrant transfer.

WE CONCUR. We have already instituted this process.

RECOMMENDATION 6

We recommend that the Montana Arts Council comply with the state's accounting policy for federal grants.

WE CONCUR. This will be implemented at fiscal year end.

RECOMMENDATION 7

We recommend that the Montana Arts Council reconcile equipment expenditures recorded on SBAS to monthly entries in the property records.

WE CONCUR. Implementation will begin immediately.

RECOMMENDATION 8

We recommend that the Montana Arts Council request a continuing appropriation when the project for which funds are appropriated spans more than one year.

WE CONCUR. In the instance cited, the funds were in fact obligated at fiscal year end. The research on the Rankin contract was not completed by fiscal year end and, hence, the contract was not signed in fiscal 1977-78.